CLIENT LOGO

City Power Johannesburg (SOC) Limited
Financial statements
for the year ended June 30, 2015

The Auditor General of South Africa

General Information

COUNTRY OF INCORPORATION AND DOMICILE	South Africa
NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	The principal activity of the entity is the distribution of electricity to industries, businesses and households in Johannesburg within it's area of supply
DIRECTORS	Rev F Chikane- Chairperson Mr NE Galawe Mr NSA Hlubi Mr V Lukhele Ms NP Mohlala Mr TI Sithole Mr QB Green - Executive Mr SG Xulu - Executive Ms S Makotoko Mr DR Mokhobo Mr D Naidu
REGISTERED OFFICE	40 Heronmere Road Reuven Johannesburg Gauteng 2016
BUSINESS ADDRESS	40 Heronmere Road Reuven Johannesburg Gauteng
Preparer of Financial Statements	Logan Pillay
POSTAL ADDRESS	PO Box 38766 Booysens Johannesburg Gauteng 2016
CONTROLLING ENTITY	The City of Johannesburg Metropolitan Municipality
BANKERS	ABSA Limited Standard Bank Limited
AUDITORS	The Auditor General of South Africa
SECRETARY	Mr MJ Smith
COMPANY REGISTRATION NUMBER	2000/030051/30

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The reports and statements set out below comprise the financial statements presented to the provincial legislature:

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
NPC	Non Profit Company
SOC	State Owned Company

Directors' Responsibilities and Approval

The directors are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and were given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the entity's cash flow forecast for the year to June 30, 2016 and, in the light of this review and the current financial position, they are satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The board of directors is primarily responsible for the financial affairs of City Power (SOC) Ltd (herein referred to as the entity).

The external auditors are responsible for independently auditing and reporting on the entity's annual financial statements.

The financial statements set out on pages 4 to 59, which have been prepared on the going concern basis, were approved by the board of directors on August 31, 2015.

Rev F Chikane- Chairperson
Designation

Directors' Report

The directors have pleasure in submitting their report, including the audited annual financial statements for the year ended June 30, 2015.

1. INCORPORATION

The entity was incorporated on 30 November 2000 and obtained its certificate to commence business on 1 January 2001.

The Companies Act, 2008 (Act 71 of 2008) became effective on 1 May 2011 and applies to annual financial periods beginning after 1 May 2011 as per proclamation R.32 published in Government Gazette 34239 on 26 April 2011. The Companies Act, 2008 repealed the whole of the Companies Act, 1973 (Act 61 of 1973), except for Chapter 14 in as far as it deals with the liquidation and winding-up of insolvent companies.

In terms of section 4(1)(c) of Schedule 5 (transitional arrangement) to the Companies Act, 2008, the entity is deemed to have amended its Memorandum of Incorporation as of the general effective date to have changed its name in so far as required to comply with section 11(3).

Therefore, as from 1 May 2011, the name of the entity is City Power Johannesburg (SOC) Ltd.

All references to the Companies Act in these annual financial statements are to the Companies Act, 2008, unless otherwise indicated.

2. REVIEW OF ACTIVITIES

Main business and operations

The entity is a municipal owned entity. The principal activity of the entity is the distribution of electricity to industries, businesses and households in Johannesburg. The entity operates principally in areas of supply in Johannesburg, South Africa.

The operating results and state of affairs of the entity are fully set out in the attached annual financial statements.

Net surplus of the entity was R 589,691 (2014: R 1,221,088), after taxation of R 229,382 (2014: R362 881).

3. GOING CONCERN

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

4. SUBSEQUENT EVENTS

The directors are not aware of any other matter or circumstance arising since the end of the financial year, not otherwise dealt with within the financial statements that would affect the operations or results of the entity significantly.

5. DIRECTORS' PERSONAL FINANCIAL INTEREST

The directors of the entity did not have any personal interest in contracts entered into by the entity during the current financial year.

6. ACCOUNTING POLICIES

The financial statements are prepared in accordance with South African Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board as the framework prescribed by The National Treasury.

Directors' Report

7. SHARE CAPITAL AND SHARE PREMIUM

There were no changes in the authorised or issued share capital of the entity during the year under review.

The entire shareholding of the entity is held by the City of Johannesburg Metropolitan Municipality.

Unissued ordinary shares are under the control of the City of Johannesburg Metropolitan Municipality.

8. BORROWING LIMITATIONS

All external funding is managed under the auspices of the City of Johannesburg Metropolitan Municipality Asset and Liability Committee and Treasury Department.

9. NON-CURRENT ASSETS

There were no major changes in the physical nature of non-current assets of the entity during the year.

10. DIVIDENDS

No dividends were declared or paid to the shareholder during the year.

11. DIRECTORS

The directors of the entity during the year and to the date of this report are as follows:

Name	Nationality	Changes
Rev F Chikane- Chairperson	South African	
Mr NE Galawe	South African	
Ms ZD Hlatshwayo	South African	
Mr NSA Hlubi	South African	Resigned Tuesday, February 03, 2015
Ms NP Mohlala	South African	
Mr V Lukhele	South African	
Mr TI Sithole	South African	Appointed Tuesday, February 03, 2015
Mr QB Green - Executive	South African	
Mr SG Xulu - Executive	South African	
Mr DR Mokhobo	South African	
Mr D Naidu	South African	
Dr Y Ndema	South African	
Ms S Makotoko	South African	Resigned Tuesday, September 30, 2014 Appointed Tuesday, February 03, 2015

12. SECRETARY

The entity secretary is Mr MJ Smith.

Business address	40 Heronmere Road Reuven Johannesburg Gauteng 2016
Postal address	PO Box 38766 Booysens Gauteng 2016

13. CORPORATE GOVERNANCE

13.1 General

The entity confirms and acknowledges its responsibility to total compliance with King III Report on Corporate Governance for South Africa. The directors (executive director) discuss the responsibilities of management in this respect, at board meetings and monitors the entity's compliance with the code during the year .

The salient features of the entity's adoption of the Code is outlined below:

13.1 Board of directors

The board:

- retains full control over the entity, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the entity;
- is a unitary structure comprising:
  - Nine non-executive directors, all of whom are independent directors as defined in the Code of Corporate Practices and Conduct ("the code") laid out in the King III Report on Corporate Governance for South Africa: and
  - -two executive directors; Accounting officer and Chief financial officer.

Chairperson and chief executive

The chairperson is a non-executive and independent director.

The roles of chairperson and managing director are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

13.3 Remuneration

The remuneration of the managing director is determined by the board of directors within the parameters set by the City of Johannesburg Metropolitan Municipality as provided for in section 89 of the MFMA.

City Power Johannesburg (SOC) Limited
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Financial Statements for the year ended June 30, 2015

Directors' Report

13.4 Board of directors meetings

The board has met on 8 separate occasions during the financial year. The board schedules to meet a minimum of four times per annum.

Non-executive directors have access to all members of management of the entity.

Name	Board meeting	Risk, Assurance & Compliance committee meeting	Quartely Review committee meeting	Social & Ethics committee meeting	HR & Remunaration committee meeting	Audit committee meeting	AGM & Workshops	AD Hoc committee
Total meetings	8	4	4	3	5	6	3	11
Rev F Chikane-Chairperson	7		4	2			3	1
Mr NE Galawa	8	3	1	3			3	11
Mr Q Green	8	4	4	3	5	6	3	9
Ms ZD Hlatshwayo	3			2			1	
Mr NSA Hlubi	7	1	3			6	1	
Ms NP Mohlala	8		3	1	5		3	
Mr DR Mokhobo	7		1	2	4	4	2	10
Mr V Lukhele	2	1		1	1		2	11
Mr D Naidu	8	4	1		4		3	
Dr Y Ndema	2			1	1			
Mr TI Sithole	5	3			5	5	3	8
Mr SG Xulu	4	3	3	2	4	5	3	
Ms S Makotoko	2	1			1		2	2
Ms M Shongwe						1	1	
Ms LJ Fosu						2	0	
Mr W Hattingh	2					5	1	
Mr H Moolla	2					4	1	

Directors' Report

13.5 Audit committee

The Audit committee consists of 3 non-excutive directors and 3 independent members.The committee met 6 times during the 2014/2015 financial year to review matters necessary to fulfill its role.

In terms of Section 166 of the Municipal Finance Management Act no 56 of 2003 (MFMA), the City of Johannesburg Metropolitan Municipality, as a parent municipality, must appoint members of the audit committee. Notwithstanding that non-executive directors appointed by the parent municipality constituted the entity's audit committee, National Treasury policy requires that parent municipalities should appoint further members of the entity's audit committees who are not directors of the entity onto the audit committee. Mr H Moolla retired as an Independent audit committee member on the 3 February 2015 and was replaced by Ms M Shongwe. The independent members are:

- Ms L Fosu
- Mr W Hattingh
- Mrs M Shongwe

The audit committee has fulfilled its responsibilities as provided for in section 166 of the Municipal Finance Management Act.

INTERNAL AUDIT

The entity's internal audit function is performed internally and assisted by outside service providers in areas where internal capacity is inadequate. This is in compliance with the Municipal Finance Management Act, 2003.

14. CONTROLLING ENTITY

The entity's parent is the City of Johannesburg Metropolitan Municipality.

15. BANKERS

ABSA Limited and Standard Bank Limited.

The management of the treasury function within the municipal entity is managed under the auspices of the City of Johannesburg Metropolitan Municipality Assets and Liabilities Committee and Treasury department.

16. AUDITORS

The Auditor General of South Africa performs the audit in terms of section 92 of the MFMA.

Company Secretary's Certification

Declaration by the company secretary in respect of Section 88(2)(e) of the Companies Act

In terms of Section 88(2)(e) of the Companies Act 71 of 2008, as amended, I certify that the company has lodged with the Commissioner all such returns as are required of a public company in terms of the Companies Act and that all such returns appear to be true, correct and up to date.

Mr MJ Smith
Company Secretary
Monday, August 31, 2015

Statement of Financial Position as at June 30, 2015

Figures in Rand thousand	Note(s)	2015	2014
ASSETS			
Current Assets			
Inventories	3	142,209	78,717
Loans to shareholder	4	1,331,603	2,241,193
Trade and other receivables from exchange transactions	5	885,994	595,473
Consumer receivables	6	2,180,338	1,956,096
Cash and cash equivalents	7	525,599	30
		5,065,743	**4,871,509**
Non-Current Assets			
Property, plant and equipment	8	11,455,567	9,677,310
Intangible assets	9	289,710	206,358
		11,745,277	**9,883,668**
Total Assets		**16,811,020**	**14,755,177**
LIABILITIES			
Current Liabilities			
Loans from shareholder	4	419,062	430,853
Finance lease obligation	10	5,724	4,778
Trade and other payables from exchange transactions	11	3,670,198	2,973,196
VAT payable	12	144,447	164,359
Provisions	13	53,343	49,335
Bank overdraft	7	2,301	-
		4,295,075	**3,622,521**
Non-Current Liabilities			
Loans from shareholders	4	2,697,165	2,237,931
Finance lease obligation	10	19,170	15,680
Employee benefit obligation	14	12,818	24,463
Deferred income	15	6,426	23,236
Deferred tax	16	1,701,476	1,472,094
Consumer deposits	17	402,038	272,091
		4,839,093	**4,045,495**
Total Liabilities		**9,134,168**	**7,668,016**
Net Assets		**7,676,852**	**7,087,161**
NET ASSETS			
Share capital and share premium	18	112,466	112,466
Accumulated surplus		7,564,386	6,974,695
Total Net Assets		**7,676,852**	**7,087,161**

Statement of Financial Performance

Figures in Rand thousand	Note(s)	2015	2014
Revenue			
Service charges	21	13,270,481	12,649,555
Government grants	22	185,821	192,004
Other income	23	78,124	96,328
Fees earned		26,888	31,794
Rental income		260	287
Interest income		144,051	161,399
Total revenue		**13,705,625**	**13,131,367**
Expenditure			
General expenses	24	(1,202,417)	(1,057,600)
Employee related costs	25	(879,170)	(741,987)
Administration	26	(77,459)	(76,584)
Bad debts	27	(604,740)	(109,664)
Depreciation and amortisation	29	(332,130)	(274,549)
Finance costs	30	(317,159)	(350,573)
Repairs and maintenance		(540,289)	(556,186)
Bulk purchases	33	(8,933,188)	(8,380,255)
Total expenditure		**(12,886,552)**	**(11,547,398)**
Operating surplus		**819,073**	**1,583,969**
Surplus before taxation		**819,073**	**1,583,969**
Taxation	31	229,382	362,881
Surplus for the year		**589,691**	**1,221,088**

Statement of Changes in Net Assets

Figures in Rand thousand	Note(s)	Share capital & Premium	Accumulated surplus	Total equity
Opening balance as previously reported		112,466	5,553,537	5,666,003
Adjustments				
Prior year adjustments	38	-	200,070	200,070
Balance at July 01, 2013 as restated		**112,466**	**5,753,607**	**5,866,073**
Changes in net assets				
Surplus for the year		-	1,221,088	1,221,088
Total changes		-	1,221,088	1,221,088
Balance at July 01, 2014		**112,466**	**6,974,695**	**7,087,161**
Changes in net assets				
Surplus for the year		-	589,691	589,691
Total changes		-	589,691	589,691
Balance at June 30, 2015		**112,466**	**7,564,386**	**7,676,852**

Cash Flow Statement

Figures in Rand thousand	Note(s)	2015	2014
Cash flows from operating activities			
Receipts			
Cash receipts from charges for goods and services		13,526,916	13,950,722
		-	-
Cash receipts from other income		102,098	27,902
Cash receipts from grants		237,003	200,829
		13,866,017	14,179,453
Payments			
Cash payment to employees		(879,170)	(735,335)
Cash payment to suppliers for goods and services		(11,582,201)	(11,235,772)
		-	-
		(12,461,371)	(11,971,107)
Net cash flows from operating activities	34	**1,404,646**	**2,208,346**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(2,195,250)	(2,144,337)
Purchase of other intangible assets	9	-	(1,685)
Movement in sweeping		909,590	464,144
Interest received		144,051	161,399
Interest paid		(317,159)	(350,572)
Net cash flows from investing activities		**(1,458,768)**	**(1,871,051)**
Cash flows from financing activities			
Repayment of borrowings		447,443	(388,293)
Cash receipts from consumer deposits		129,947	50,986
Net cash flows from financing activities		**577,390**	**(337,307)**
Net increase/(decrease) in cash and cash equivalents		**523,268**	**(12)**
Cash and cash equivalents at the beginning of the year		30	42
Cash and cash equivalents at the end of the year	7	**523,298**	**30**

Statement of Financial Performance comparison: Budget vs Actual

	Actual Balance (000's)	Original budget (000's)	Variance (000's)	Revised budget (000's)	Variance (000's)	Comment
Revenue						
Service charges	13,270,481	13,663,620	(393,139)	14,057,812	(787,331)	Accrual not yet finalised and decrease in units sold
Other income	435,144	681,370	(246,226)	436,386	(1,242)	Dsm levies decreased due to reduction in units
Total Operating Costs	13,705,625	14,344,990	(639,365)	14,494,198	(788,573)	
Administration and management fees	77,459	77,459	0	77,459	0	
Advertising	14,222	11,711	(2,511)	17,088	2,866	Advertising of load shedding
Assessment rates & municipal charges	8,010	7,143	(867)	7,846	(164)	
Auditors remuneration	4,504	4,500	(4)	4,500	(4)	
Bad debts	604,740	452,542	(152,198)	452,542	(152,198)	
Bank charges	858	315	(543)	330	(528)	Increase in pre paid customers
Billing and meter reading charges	11,587	33,500	21,913	17,558	5,971	Due to the installation of smart meters the cost decreased
Bulk purchases	8,933,188	9,124,840	191,652	8,953,214	20,026	
Cleaning	156	959	803	866	710	Decrease in pest control and specialised cleaning cost
Commission paid	45,167	33,400	(11,767)	48,400	3,233	
Conferences and seminars	2,167	1,999	(168)	3,481	1,314	Decrease in the attendance of conferences and seminars
Consulting and professional fees	155,873	60,301	(95,572)	168,201	12,328	Decrease in the utilisation of consultants
Consumables	0	0		180	180	
Depreciation, amortisation and impairments	332130	277,856	(54,274)	329,384	(2,746)	
Donations	50	1,000	950	372	322	Less donations were made than anticipated
Employee costs	879,168	820,241	(58,927)	873,758	(5,410)	
Entertainment	2,840	2,799	(41)	3,268	428	Decrease in refreshments used during meetings
Material issues	147821	112,000	(35,821)	311,719	163,898	Due to the slow installation of solar water heaters
Hostel charges	0	2,566	2,566	1,201	1,201	
Insurance	28,722	61,810	33,088	61,810	33,088	Lower premiums than expected
Disposal of fixed assets (Loss)	1,516	49,868	48,352	24,566	23,050	
Lease rentals on operating lease	498,867	350,163	(148,704)	489,847	(9,020)	
Levies	7,357	4,629	(2,728)	4,290	(3,067)	
Cut off fees	18302	35,967	17,665	32,382	14,080	Decrease in credit control measures
Magazines, books and periodicals	64	214	150	210	146	
Motor vehicle expenses	54399	30,698	(23,701)	47,241	(7,158)	Increase in petrol prices and additional generators utilised
Eskom free electricity	5614	6,306	692	6,306	692	
Postage and courier	11	38	27	33	22	
Printing and stationery	2,271	6,165	3,894	5,253	2,982	Cost saving initiative
Repairs and maintenance	540,289	490,215	(50,074)	590,309	50,020	Increase in planned maintenance
Security	99139	55,500	(43,639)	57,444	(41,695)	Additional security due to theft and vandalism
Sundry expenses	175	1,829	1,654	1,059	884	
Software expenses	49,998	19,565	(30,433)	19,679	(30,319)	Increase in Microsoft, SAP and Oracle licencing
Staff welfare	-8433	9,250	17,683	9,797	18,230	
Subscriptions and membership fees	181	750	569	792	611	
Telephone and fax	24,269	21,269	(3,000)	17,325	(6,944)	Cost saving initiative
Training	6770	8,053	1,283	8,446	1,676	Delay in PDP programs
Transport and freight	0	1,795	1,795	1,052	1,052	No subsidised transport
Travel - local	3,850	12,028	8,178	7,512	3,662	Fewer trips taken
Travel - overseas	1,384	1,701	317	3,038	1,654	Fewer trips taken
Utilities	14,708	22,217	7,509	21,967	7,259	Less expenditure incurred on tree pruning
Total operating Costs	12,569,393	12,215,161	(354,232)	12,681,725	112,332	
Operating Profit	1,136,232	2,129,829	(993,597)	1,812,473	(676,241)	
Finance costs	317,159	345,022	27,863	382,516	65,357	
Net Income Before Tax	819,073	1,784,807	(965,734)	1,429,957	(610,884)	
Taxation	229,382	499,741	270,359	332,654	103,272	
Net surplus for the year	589,691	1,285,066	(695,375)	1,097,303	(507,612)	

City Power Johannesburg (SOC) Limited
(Registration number 2000/030051/30)
Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Position comparison: Budget vs Actual

	Actual (000's)	Original Budget (000's)	Variance (000's)	Revised budget (000's)	Variance (000's)
ASSETS					
Current Assets					
Inventory	142,209	153,558	11,349	82,717	-59,492.00
Loans to shareholder	1,331,603	2,367,975	1,036,372	2,075,867	744,263.83
Trade and other receivables froms exchange transactions	885,994	115,138	-770,856	115,138	-770,856.34
Cunsumer receivables	2,180,339	2,048,523	-131,816	2,102,696	-77,643.00
Cash and Cash equivalents	525,599		-525,599		-525,599.00
	5,065,744	**4,685,193**	**-380,551**	**4,376,417**	**-689,326.51**
Non-Current Assets					
Property, plant and equipment	11,455,567	11,256,907	-198,660	11,264,404	-191,162.90
Intangible assets	289,710	165,811	-123,899	175,273	-114,437.17
	11,745,277	**11,422,719**	**-322,558**	**11,439,677**	**-305,600.07**
Total Assets	**16,811,021**	**16,107,912**	**-703,109**	**15,816,094**	**-994,926.58**
LIABILITIES					
Current Liabilities					
Loan from shareholder	419,062	2,148,836	1,729,774	464,768	45,706.36
Finance lease obligation	5,724	11,588	5,864	8,581	2,856.60
Trade and other payables from exchange transactions	3,670,199	2,834,558	-835,641	2,537,782	-1,132,416.88
VAT payable	144,447		-144,447		-144,447.00
Provisions	53,343	168,592	115,249	162,881	109,538.08
Bank overdraft	2,301		-2,301		-2,301.00
	4,295,076	**5,163,573**	**868,497**	**3,174,012**	**-1,121,063.84**
Non-Current Liabilities					
Loan from shareholder	2,697,165	464,768	-2,232,397	2,148,836	-548,329.19
Finance lease obligation	19,170	10,807	-8,363	28,159	8,989.03
Employee benefit obligation	12,818		-12,818		-12,818.00
Deferred income	6,426		-6,426		-6,426.00
Deferred tax	1,701,476	1,115,601	-585,875	1,472,094	-229,382.00
Consumer deposits	402,038	375,639	-26,399	315,831	-86,207.14
	4,839,093	1,966,815	-2,872,278	3,964,920	-874,173.30
Total Liabilities	**9,134,169**	**7,130,389**	**-2,003,780**	**7,138,932**	**-1,995,237.14**
NET ASSETS					
Share capital and share premium	112,466	112,466	0	112,466	0.00
Accumulated surplus	7,564,386	8,865,057	1,300,671	8,201,645	637,259.47
Total Net Assets	**7,676,852**	**8,977,523**	**1,300,671**	**8,314,111**	**637,259.47**

Accounting Policies

1. Presentation of annual financial statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the entity. All figures are rounded to the nearest thousand rand.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Valuation of loans and receivables

The entity assesses its loans and receivables for impairment at each reporting date. In determining whether an impairment loss should be recorded in surplus or deficit, the entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The allowance for impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the effective interest rate computed at initial recognition.

Impairment testing of non-financial assets

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions made may change which may then impact management's estimations and may then require a material adjustment to the carrying value of tangible assets.

The entity reviews and tests the carrying value of cash generating units and individual assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including economic factors.

Management used the fair value less cost to sell to determine the recoverable amount of intangible assets with an indefinite useful life and identifying assets that may have been impaired.

Provisions

Provisions are raised based on management determined estimates based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net liability include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The entity determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the entity considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Effective interest rate

The entity used the City of Johannesburg Metropolitan Municipality borrowing market rate as a basis for discounting financial instruments.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The entity recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The entity recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the entity to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the entity to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost but includes non-refundable taxes.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Accounting Policies

1.3 Property, plant and equipment (continued)

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Infinite
Buildings	40-60 years
Leasehold property	6 years
Plant and machinery	
• Transformers	55 years
• Transmission cables	61-85 years
• Mini-substation	55 years
Furniture and fixtures	6-20 years
Motor vehicles	3-5 years
IT equipment	3-9 years

The residual value, and the useful life and depreciation method of each asset is reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.4 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Accounting Policies

1.4 Intangible assets (continued)

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that is attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

The entity assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Additional capacity rights	10 years
Computer software	3-9 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

Accounting Policies

1.5 Financial Instruments

Classification

The entity classifies financial assets and financial liabilities into the following categories:

- Financial assets at amortised cost
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Initial recognition and measurement

Financial instruments are recognised initially when the entity becomes a party to the contractual provisions of the instruments.

The entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at amortised cost, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

The entity recognises financial assets using trade date accounting.

Subsequent measurement

Financial asset at amortised costs are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each end of the reporting period the entity assesses all financial assets to determine whether there is objective evidence that a financial asset (or group of financial assets) has been impaired.

For amounts due to the entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

1.5 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Gains and losses

A gain or loss arising from a change in the amortised cost of a financial asset or financial liability measured at amortised cost is recognised in surplus or deficit.

Derecognition

Financial assets

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognises the assets
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amount of the transferred asset is allocated between the rights or obligations retained and those transferred on the basis of their amortised cost at the transfer date. Newly created rights and obligations are measured at their amortised cost at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received, is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.6 Research and development expenditure

Expenditure on research is recognised as an expense when it is incurred.

An asset arising from development is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Accounting Policies

1.7 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus or deficit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus or deficit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Current tax and deferred taxes are recognised in net assets if the tax relates to items that are credited or recognised, in the same or a different period, to net assets.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance lease assets are recognised in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the right to use the asset.

Finance leased assets are depreciated over the useful life of the asset.

1.8 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis over the lease term.

Any contingent rent is recognised separately as an expense when paid or payable and is not straight-lined over the lease term.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value or current replacement cost.

Inventories are measured at the lower of cost and current replacement cost where they are held for:
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost that the entity incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Budget information

A reconciliation between the statement of financial performance and the budget has been disclosed in the annual financial statements as determined by The National Treasury. The annual financial statements and the budget are reported on the accrual basis of accounting.

The approved budget has been revised through an adjustment budget in line with the stipulation of section 28 of the MFMA. The adjusment budget takes into account the change in trading conditions and the performance of the business.

The approved budget covers the fiscal period from 7/1/2014 to 6/30/2015.

Accounting Policies

1.11 Capital Commitments

Items are classified as commitments where the entity commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the Statement of financial position as a liability but are included in the disclosure note in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where expenditure has been approved and the contract is yet to be awarded or is awaiting finalisation at the reporting date.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.

1.12 Related parties

The entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities under the controlled by City of Johannesburg Metropolitan Municipality are considered to be related parties.

Key management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the entity.

1.13 Impairment of cash-generating assets

Cash-generating assets are those assets held by the entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the entity; or
- the number of production or similar units expected to be obtained from the asset by the entity.

Identification

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

The entity assesses at each reporting date whether there is any indication that an asset or cash-generating unit may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occurs when there is clear evidence that such a redesignation is appropriate.

1.14 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted when the effect is not material.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

1.14 Employee benefits (continued)

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

The entity provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the statement of financial performance when the gratuity is payable.

Post-employment benefits: Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed retirement benefit schemes (or state plans) are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Post-employment benefits: Defined benefit plans

For defined benefit plans, the cost of providing the benefits is determined using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to the end of the reporting period where the interim valuation is performed at an earlier date.

In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

In measuring its defined benefit liability the entity recognises past service cost as an expense in the reporting period in which the plan is amended.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised when the entity is committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation.

Any asset is limited to the present value of available refunds and reduction in future contributions to the plan.

Accounting Policies

1.14 Employee benefits (continued)

Other post retirement obligations

The entity provides post-retirement health care benefits and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and medical aid subsidy on retirement to certain employees. An annual charge to expenditure is made to cover both these liabilities.

1.15 Provisions and contingencies

Provisions are recognised when:

- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36 - Contingencies.

1.16 Revenue from exchange transactions

An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at cost of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Accounting Policies

1.16 Revenue from exchange transactions (continued)

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Revenue estimation

Consumers are invoiced based on estimates of consumption where no meter reading has taken place during the billing period. These invoices are best estimates based on historical customer's average consumption and enable revenue to be measured reliably. On an annual basis the actual consumption is compared to the estimated consumption in order to provide additional assurance that significant adjustments are not required to reverse excessive estimates. In the event that significant adjustments are identified, these adjustments are treated as changes in estimates in terms of GRAP 3 and are recognised in surplus or deficit in the period of the change.

Interest

Interest is recognised on a time proportion-basis using the effective interest.

1.17 Revenue from non-exchange transactions

Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the entity has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.18 Prior year errors

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

Where accounting errors have been identified in the current financial year the correction is made retrospectively as far as it is practical and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as it is practical and the prior year comparatives are restated accordingly.

1.19 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

Accounting Policies

1.19 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA:

- expenditure incurred by an entity or municipality entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms od section 170;
- expenditure incurred by a municipality or municipality entity in contravention of, or that is not in accordance with, a requirement of the municipality System Ac, and which has not been condoned in terms of this Act;
- expenditure incurred by a municipality or municipality entity in contravention of, or that is not in accordance with, a requiremement of the Public Office-Bearers Act, 1998 (Act No.20 of 1998); or

expenditure incurred by a municipality or municipality entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-law giving effect to such policy, and which has been condoned in terms of such policy or by-law but excudes expenditure by municipality which falls within the defination of "unauthorised expenditure".

Irregular expenditure that was incurred and identified during the current financial period and which was condoned before year end and/or before finalisation of financial statements must be recorded appropriately in the irregular expenditure register. In such an instance, the note to the financial statement must be updated to reflect this.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury ot the relevant authority must be recorded appropriatetly in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such person is liable in law. Immediate steps must be thereafter be taken to recover the amount from the person concerned. If recovery is not possible, write off of the amount must be considered.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred.The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Value added tax

The entity registered with SARS for VAT on the payment basis, in accordance with sec 15(2(a) of the Value Added Tax Act No 89 of 1991.

1.23 Going concern

The financial statement have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

1.24 Income Tax

The entity is liable for tax and is registered with SARS for income tax.

Accounting Policies

1.25 Expenses - Administration expenses, repairs and maintenance and general expenses

Expenses are measured reliably at amortised cost of the consideration payable, exclusive of value added tax.

1.26 Bulk Purchases

Bulk purchases represent the cost of electricity purchased for onwards selling to consumers. The expense is recognised in relation to the income earned.

Expenses are measured reliably at the amortised cost of the consideration payable, exclusive of value added tax.

1.27 Share Capital

The entire shareholding of the entity is held by the City of Johannesburg Metropolitan Municipality.

Unissued ordinary shares are under the control of the City of Johannesburg Metropolitan Municipality.

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

2. New standards and interpretations

2.1 Standards and interpretations not yet effective

Entities may not early adopt Standards of GRAP if the Minister of Finance has not determined an effective date for that standard. The following standards of GRAP have been issued but not yet effective:

- GRAP 20 - Related party disclosures
- GRAP 105 - Transfer of functions between entities under common control
- GRAP 106 - Transfer of functions between entities not under common control
- GRAP 107 - Mergers
- GRAP 32 -Service concession arrangements
- GRAP 108 - Statutory receivables
- GRAP 18 - Segment reporting

There will be no impact of the initial adoption of the standards and interpretations on the entity's financial statements.

3. Inventories

	2015	2014
Consumable stores	172,933	97,550
Inventory (write-downs)	172,933	97,550
	(30,724)	(18,833)
	142,209	**78,717**

Inventory pledged as security

No inventories were pledged as security during the year.

4. Loans to / (from) shareholder

	2015	2014
City of Johannesburg Metropolitan Municipality - Capex loans	(2,491,434)	(2,043,991)
Sweeping account	1,331,603	2,241,193
City of Johannesburg Metropolitan Municipality - Shareholder loans	(624,793)	(624,793)
	(1,784,624)	**(427,591)**

Capex loans

Capex loan granted in 2006. The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 10.20% which is compounded monthly. The loan was fully repaid at end of reporting period.

Capex loan granted in 2007. The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 9.00% which is compounded monthly.

Capex loan granted in 2008. The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 9.00% which is compounded monthly.

Capex loan granted in 2009. The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 12.21% which is compounded monthly.

Capex loan granted in 2010. The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 10.9% which is compounded monthly.

Capex loan granted in 2011. The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 10.9% which is compounded monthly.

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

4. Loans to / (from) shareholder (continued)

Capex loan granted in 2012. The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 10.9% which is compounded monthly.

Capex loan granted in 2013.The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 10.9% which is compounded monthly.

Capex loan granted in 2014.The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 9.65% which is compounded monthly.

Capex loan granted in 2015.The original loan is unsecured and the loan is repayable in equal quarterly installments over the 10 year loan term. The loan bears interest at 10.18% which is compounded monthly.

Shareholder's loans
The loans are unsecured and interest applicable is between 14.5% and 17.5% per annum. The shareholder has agreed to subordinate as much of its loan account as necessary as would enable the claims of other payables to be paid in full.

	2015	2014
Current assets	1,331,603	2,241,193
Non-current liabilities	(2,697,165)	(2,237,931)
Current liabilities	(419,062)	(430,853)
	(1,784,624)	**(427,591)**

Sweeping account

	2015	2014
Loans at beginning of the year	2,241,193	2,705,337
Movement during the year	(909,590)	(464,144)
	1,331,603	**2,241,193**

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

4. Loans to / (from) shareholder (continued)

Capex Loans

Loans at beginning of the year	(1,613,138)	(2,003,325)
Loans raised	(890,965)	(56,228)
Repayments	12,669	15,562
Less amount payable within 12 months	419,062	430,853
	(2,072,372)	**(1,613,138)**

Shareholder loans movement for the year

Loans at beginning of the year	(624,793)	(624,793)
Interest charged	(109,616)	(109,616)
Interest paid	109,616	109,616
	(624,793)	**(624,793)**

Non-current liabilities

Capex loans	(2,072,372)	(1,613,138)
Shareholder's loans	(624,793)	(624,793)
	(2,697,165)	**(2,237,931)**

Current liabilities

Loans outstanding at the beginning of the year	(430,853)	(428,960)
Transfer from long term loans	(419,062)	(430,853)
Less amounts paid during the year	430,853	428,960
	(419,062)	**(430,853)**

5. Trade and other receivables from exchange transactions

Deposits	68	68
Sundry receivables	116,237	129,387
Related party receivables	769,689	466,018
	885,994	**595,473**

Sundry receivables

Eskom Holdings (Soc)Ltd	38	95,053
Others	62,071	34,334
SARS	54,128	-
	116,237	**129,387**

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

6. Consumer receivables

Gross balances		
Electricity	2,740,813	5,281,999

The increase in consumer receivables comparative to the prior year is due to the lower than expected collection levels from customers.

Less: Allowance for impairment		
Electricity	(560,475)	(3,325,903)
Net balance		
Electricity	2,180,338	1,956,096
Electricity		
Current (0 - 30 days)	1,883,681	1,215,891
31 - 60 days	194,718	477,161
61 - 90 days	19,803	189,238
91 - 120 days	11,793	44,269
121 - 365 days	45,671	29,537
> 365 days	24,672	-
	2,180,338	**1,956,096**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(3,325,903)	(3,533,817)
Contribution to allowance	(689,403)	(125,017)
Debt impairment written off against allowance	3,467,257	332,931
Bad debts recoveries	(12,426)	-
	(560,475)	**(3,325,903)**

Credit quality of consumer receivables

The credit quality of consumer receivables that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Trade receivables

Consumer receivables past due but not impaired

As at June 30, 2015, R 296,658 (2014: R 714,502) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	194,718	477,161
2 months past due	19,803	163,535
3 months past due and older	82,137	73,806

Consumer receivables impaired

As of June 30, 2015, consumer debtors of R560 475 (2014: R 3,325,903) were impaired and provided for.

3 to 6 months	164,414	830,099
Over 6 months	396,061	2,495,804

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

7. Cash and cash equivalents

Cash and cash equivalents consist of:

	2015	2014
Cash on hand	30	30
Cash at bank	525,569	-
Bank overdraft	(2,301)	-
	523,298	**30**
Current assets	525,599	30
Current liabilities	(2,301)	-
	523,298	**30**

Cash is reflected at the carrying value which approximates fair value. There is no credit risk attached to the instrument.

The municipal entity has a sweeping arrangement with the City of Johannesburg Metropolitan Municipality whereby all cash is swept on a daily basis to the City of Johannesburg Metropolitan Municipality's bank account. Some of the entity's ABSA bank accounts were not swept during the finacial period which resulted in balances at the end of the reporting period. Petty cash is reflected as cash on hand. The cash owed to the entity by the City of Johannesburg Metropolitan Municipality is reflected as an amount due from the shareholder.

Bank balances consist of the following:

	2015	2014
405439473 - ABSA Main cheque		
4054636689 - ABSA Sundry revenue account	54,883	-
4055151238 - ABSA Electricity deposits	3,008	-
4055418357 - ABSA Prepaid account	97,737	-
4054394744 ABSA Bank charges	369,940	-
	(2,301)	-
	523,267	-

The entity has the following bank accounts:

4055151157 ABSA Third party payments

4055151238 ABSA Electricity deposits

4054799051 ABSA On site collections

4054799564 ABSA Unpaid collections

4054394728 ABSA Direct deposits

4054394760 ABSA Unpaid cheques

4055418357 ABSA Prepaid account

4054636689 ABSA Sundry revenue account

4054394744 ABSA Bank charges

4054394752 ABSA Salaries

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

7. Cash and cash equivalents (continued)

405439473	ABSA Main cheque	
198641	Standard Bank Limited	Bank charges account
198684	Standard Bank Limited	Sundry account
198714	Standard Bank Limited	Main account
198757	Standard Bank Limited	Prepaid account
198854	Standard Bank Limited	Electronic collections account

8. Property, plant and equipment

	2015			2014		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	27,859	-	27,859	10,888	-	10,888
Buildings	481,682	(165,551)	316,131	370,381	(161,361)	209,020
Finance leased assets	35,412	(10,903)	24,509	28,516	(8,861)	19,655
Plant and machinery	11,144,158	(1,755,556)	9,388,602	9,020,459	(1,462,921)	7,557,538
Furniture and fixtures	26,961	(17,173)	9,788	24,175	(15,146)	9,029
Motor vehicles	1,336	(1,336)	-	1,336	(7)	1,329
IT equipment	93,054	(58,270)	34,784	58,586	(49,838)	8,748
Capital work in progress	1,653,894	-	1,653,894	1,861,103	-	1,861,103
Total	**13,464,356**	**(2,008,789)**	**11,455,567**	**11,375,444**	**(1,698,134)**	**9,677,310**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	10,888	-	-	16,971	-	27,859
Buildings	209,020	887	-	110,240	(4,016)	316,131
Leasehold property	19,655	13,547	-	-	(8,693)	24,509
Plant and machinery	7,557,538	24,968	(321)	2,100,883	(294,466)	9,388,602
Furniture and fixtures	9,029	3,321	(42)	-	(2,520)	9,788
Motor vehicles	1,329	-	-	-	(1,329)	-
IT equipment	8,748	8,798	(71)	21,584	(4,275)	34,784
Capital work in progress	1,861,103	2,143,729	-	(2,350,938)	-	1,653,894
	9,677,310	**2,195,250**	**(434)**	**(101,260)**	**(315,299)**	**11,455,567**

Reconciliation of property, plant and equipment - 2014

Notes to the Financial Statements

Figures in Rand thousand | 2015 | 2014

8. Property, plant and equipment (continued)

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	10,888	-	-	-	-	10,888
Buildings	211,981	1,072	-	-	(4,033)	209,020
Leasehold property	6,526	20,309	-	-	(7,180)	19,655
Plant and machinery	7,003,658	36,284	(3,553)	751,608	(230,459)	7,557,538
Furniture and fixtures	9,658	2,287	(1)	-	(2,915)	9,029
Motor vehicles	-	1,336	-	-	(7)	1,329
IT equipment	10,253	4,167	(8)	-	(5,664)	8,748
Capital work in progress	533,829	2,078,882	-	(751,608)	-	1,861,103
	7,786,793	**2,144,337**	**(3,562)**	**-**	**(250,258)**	**9,677,310**

Pledged as security

No items of property, plant and equipment are pledged as security.

Borrowing costs capitalised

No interest was capitalised during the year.

A register containing the information required by section 63 of the MFMA is available for inspection at the registered office of the entity.

9. Intangible assets

	2015			2014		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Additional capacity rights	235,867	(49,150)	186,717	235,867	(43,417)	192,450
Computer software	159,301	(56,308)	102,993	101,311	(87,403)	13,908
Total	**395,168**	**(105,458)**	**289,710**	**337,178**	**(130,820)**	**206,358**

Reconciliation of intangible assets - 2015

	Opening balance	Disposals	Transfers	Amortisation	Total
Additional capacity rights	192,450	-	-	(5,733)	186,717
Computer software	13,908	(1,078)	101,260	(11,097)	102,993
	206,358	**(1,078)**	**101,260**	**(16,830)**	**289,710**

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Additional capacity rights	198,182	1,685	(7,417)	192,450
Computer software	30,782	-	(16,874)	13,908
	228,964	**1,685**	**(24,291)**	**206,358**

Pledged as security

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

9. Intangible assets (continued)

No intangible assets are pledged as security.

10. Finance lease obligation

	2015	2014
Minimum gross lease payments due		
- within one year	7,891	6,398
- in second to fifth year inclusive	24,464	19,145
- later than five years	-	426
	32,355	25,969
less: future finance charges	(7,460)	(5,511)
Present value of minimum lease payments	**24,895**	**20,458**
Present value of minimum lease payments due		
- within one year	5,724	4,779
- in second to fifth year inclusive	19,170	15,309
- later than five years	-	370
	24,894	**20,458**
Non-current liabilities	19,170	15,680
Current liabilities	5,724	4,778
	24,894	**20,458**

The finance lease obligation relates to motor vehicles leases from City of Johannesburg.

The average lease term period was 6 years and the effective borrowing rate was 10% (2014: 10%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

11. Trade and other payables from exchange transactions

	2015	2014
Trade payables	2,249,086	2,121,851
Accrual service bonus	6,635	6,698
Deposits received	16,685	5,217
Accrual for leave pay	82,724	79,282
Consumer debtors with credit balances	624,721	710,509
Related party creditor	690,347	49,639
	3,670,198	**2,973,196**

12. VAT payable

	2015	2014
Value added tax	144,447	164,359

All VAT returns were submitted timeously during the current financial year in terms of the Value Added Tax Act.

Vat refunds totalling R118 921 263 has not yet been received from Sars. The company has been submitting vat returns on a payments basis. The completion of the vat returns are based on an approval received in 2002 from Sars. An audit was conducted by Sars for the returns submitted in August and September 2012 that gave rise to a query on the vat status of entity. Proof of approval for submission of vat returns was lodged with Sars. The legal department of Sars has confirmed that the entity can continue to complete vat returns on a payments basis subject to the entity reapplying for registration on a payments basis. The re application is in progress.The refund to the entity is not in doubt.

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

13. Provisions

Reconciliation of provisions - 2015

	Opening balance	Additions	Utilised during the year	Total
Bonus provision	49,335	53,920	(49,912)	53,343

Reconciliation of provisions - 2014

	Opening balance	Additions	Utilised during the year	Total
Bonus provisions	48,103	45,966	(44,734)	49,335

The bonus provision relates the performance bonuses that the entity expects the pay to qualifying employees. The amount is based on the performance of the financial year under review which is still to be determined. The provision is management's best estimate of the entity's liability at reporting date.

14. Employee benefit obligations

Defined benefit plan

Post retirement liability	2015	2014
Post retirement medical aid plan		
Post retirement gratuity	(7,022)	(2,115)
Balance at end of year	(5,796)	(22,348)
	(12,818)	**(24,463)**

The entity has obligations to subsidise medical aid contributions in respect of certain qualifying staff and pensioners and their surviving spouses. Only pensioners and employees who were aged 50 or older and were members of LA Health and Munimed are included.

The above liability is unfunded. However, the City of Johannesburg Metropolitan Municipality has undertaken to cover such portion of the liability for the staff of the entity who are entitled to benefit that relates to their service with the City of Johannesburg Metropolitan Municipality since the entity was established.

Movement for the year

	2015	2014
Opening balance		
Interest charged	(2,115)	(2,031)
Gains (losses)	(188)	(162)
Benefits paid	(4,658)	116
Current service cost	-	50
Balance at end of the year	(61)	(88)
	(7,022)	**(2,115)**

Net expense recognised in the statement of financial performance

	2015	2014
Current service cost		
Interest cost	(61)	(88)
Actuarial (gains) losses	(188)	(162)
	(4,658)	116
	(4,907)	**(134)**

Figures in Rand thousand	2015	2014

14. Employee benefit obligations (continued)

Key assumptions used

Assumptions used on last valuation on 30 June 2015. The discount rate was set as the yield of the R209 South African bond at valuation date.

	2015	2014
Discount rates used		
Expected rate of return on assets	7.99 %	8.94 %
Health care cost inflation rate	- %	5.09 %
Rate of increase in employer post-retirement medical contribution subsidy	7.63 %	8.05 %
payment	7.13 %	8.05 %

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

14. Employee benefit obligations (continued)

Post-retirement gratuity plan

The entity provides gratuities on retirement or on death to certain qualifying employees who have service with the City of Johannesburg Metropolitan Municipality or the municipal entity when they were not members of one of the retirement funds and who meet certain service requirements in terms of the City of Johannesburg Metropolitan Municipality's conditions of employment. The gratuity amount is based on one month's salary per year of nonretirement funding service.

The above liability is unfunded. However, the City of Johannesburg Metropolitan Municipality has undertaken to cover such portion of the liability for the staff of the entity who are entitled to benefits that relate to their service with the City of Johannesburg Metropolitan Municipality since the entity was established.

The plan is a post-retirement gratuity benefit plan.

	2015	2014
Movement for the year		
Opening balance		
Benefits paid	(22,348)	(25,564)
Interest charged	-	1,241
Actuarial gains or (losses)	(1,770)	(1,862)
	18,322	3,837
Balance at end of year	**(5,796)**	**(22,348)**

Net expenses recognised in the statement of finacial performance

	2015	2014
Interest charged		
Actuarial gains or (losses)	(1,770)	-
	18,322	3,837
Total included in employee benefit expense	**16,552**	**3,837**

Key assumptions used

Assumptions used on last valuation on June 30, 2015. The discount rate was set as the yield of the R209 South African bond at valuation date.

Sensitivity Analysis

In order to illustrate the sensitivity of the valuation results the following assumptions have been used:

- 1% increase/decrease in the medical and salary inflation rate assumptions used.

The effect of these assumptions are as follows:

	-1% in medical/salary infaltion	**Valuation assumption**	**+1% in medical/salary inflation**
Post retirement Medical aid subsidies	6,360	7,022	7,787
Retirement gratuities	5,674	5,796	5,920
	12,034	**12,818**	**13,707**

Defined contribution plan

The entity provides post-employment benefits to all their permanent employees through defined contribution funds.

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

15. Deferred income

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal system improvement grant	2,595	-
Public contributions: service connections	3,831	23,236
	6,426	**23,236**

Movement during the year

Balance at the beginning of the year	23,236	11,345
Additions during the year	272,382	255,345
Income recognition during the year	(289,192)	(243,454)
	6,426	**23,236**

16. Deferred tax

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

Reconciliation of deferred tax asset \ (liability)

At beginning of year	(1,472,094)	(1,109,213)
Taxable temporary differences	66,837	(39,270)
Utilised assessed loss	(296,219)	(323,611)
	(1,701,476)	**(1,472,094)**

Deferred tax analysis		
Fixed assets	(2,052,081)	(1,683,044)
Leased assets	107	224
Provisions	18,746	21,340
Income in advance	-	9,508
Deferred expenditure	(36,979)	(36,507)
Assess loss	368,731	216,385
	(1,701,476)	**(1,472,094)**

17. Consumer deposits

Electricity	402,038	272,091

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

18. Share capital and share premium

	2015	2014
Authorised		
10 000 Ordinary shares of R1 each	10	10
Reconciliation of number of shares issued:		
Reported as at beginning of year	10	10
Issue of shares – ordinary shares	-	-
Reported as at end of year	**10**	**10**
Issued		
Share premium	112,466	112,466

Issued share capital consists of 1 issued share of R1 nominal value.

19. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2015

	Amortised cost	Total
Loans to shareholder	1,331,603	1,331,603
Consumer receivables	2,180,339	2,180,339
Trade and other receivables	885,994	885,994
Cash and cash equivalents	525,599	525,599
	4,923,535	**4,923,535**

2014

	Amortised cost	Total
Loans to shareholder	2,241,193	2,241,193
Consumer receivables	1,956,096	1,956,096
Trade and other receivables	595,473	595,473
Cash and cash equivalents	30	30
	4,792,792	**4,792,792**

20. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2015

	Financial liabilities at amortised cost	Total
Loans from shareholder	419,062	419,062
Trade and other payables from exchange transactions	3,670,199	3,670,199
Bank overdraft	2,301	2,301
	4,091,562	**4,091,562**

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

20. Financial liabilities by category (continued)

2014

	Financial liabilities at amortised cost	Total
Loans from shareholder	430,853	430,853
Trade and other payables from exhange transactions	2,973,196	2,973,196
	3,404,049	**3,404,049**

21. Revenue

	2015	2014
Sale of electricity	13,057,501	12,486,015
New service connections	212,980	163,540
	13,270,481	**12,649,555**

22. Other revenue

	2015	2014
Fees earned	26,888	31,794
Rental income - third party	260	287
Other income	78,124	96,328
Government grants	185,821	192,004
	291,093	**320,413**

Source of government grants:	2015	2014
Municipal infrastructure grant	90,000	105,038
Department of Energy	31,000	37,815
Engineering fees contributions	52,820	47,001
COJ Housing projects	9,700	-
Skills development grant	2,301	2,150
	185,821	**192,004**

Grants are received to finance capital projects in respect of the electrification of under developed areas.

All conditions of these grants at reporting date have been met.

23. Other income

	2015	2014
Cut off fees	2,928	10,541
Demand side management levy	66,240	65,461
Disposal of obsolete materials	3,933	904
Canteen revenue	3,935	3,871
Cash discount received	41	239
Street pole advertising	(2,564)	13,536
Tender administration fees	3,611	1,776
	78,124	**96,328**

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Notes to the Financial Statements

24. General expenses

Figures in Rand thousand	2015	2014
Advertising	14,222	10,261
Assessment rates & municipal charges	8,010	10,643
Auditors fees	4,504	4,228
Bank charges	858	442
Cleaning	156	-
Commission paid	45,167	32,008
Consulting and professional fees	155,871	108,793
Donations	50	2,660
Entertainment	2,840	2,392
Insurance	28,722	41,588
Conferences and seminars	2,167	5,963
Lease rentals on operating lease	498,867	389,635
Levies	7,357	6,455
Magazines, books and periodicals	64	59
Motor vehicle expenses	54,399	50,472
Postage and courier	11	-
Printing and stationery	2,271	2,053
Security expenses	99,139	66,403
Software expenses	49,998	23,298
Staff welfare	(8,433)	226
Subscription fees	181	628
Telephone and fax	24,269	15,722
Training	6,770	6,469
Travel - local	3,850	6,424
Travel - overseas	1,384	460
Tree pruning	14,708	15,060
Meter readings	11,587	24,713
Loss on disposal of assets	1,516	3,561
Cut off fees	18,302	27,409
Material issues	147,821	195,473
Sundry expenses	175	323
Eskom free electricity costs	5,614	3,779
	1,202,417	**1,057,600**

Notes to the Financial Statements

Figures in Rand thousand	Note	2015	2014

25. Employee related costs

Salaries and wages		525,992	452,027
Gratuities		1,052	207
Membership fees		393	655
Bursary grants		2,449	1,374
Protective clothing		4,605	4,229
Overtime payments		79,282	85,014
Bonus		53,920	45,966
Unemployment Insurance Fund		3,080	2,765
Workmen's Compensation		5,543	4,462
Leave pay charge		7,715	6,652
Pension fund contributions		80,029	53,460
Group Life Assurance	14	18,320	14,908
Long-service awards		6,521	5,702
13th cheques		9,934	10,216
Acting allowances		44,635	21,004
Car allowances		27,846	27,071
Cellphone allowances		6,841	6,526
Termination benefits		1,013	(251)
		879,170	**741,987**

The remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations.

26. Administrative expenditure

Administration and management fees - related party	77,459	76,584

27. Bad debts

Increase in allowance for doubtful debt	604,740	109,664

28. Interest revenue

Interest earned - City of Johannesburg banking	90,439	128,866
Interest earned - Outstanding receivables	40,200	28,331
Interest earned - SARS	4,623	-
Interest earned - Post Retirement benefit asset	5,012	-
Interest earned - Bank	3,777	4,202
	144,051	**161,399**

29. Depreciation and amortisation

Property, plant and equipment	315,299	250,258
Intangible assets	16,831	24,291
	332,130	**274,549**

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

30. Finance costs

	2015	2014
Group companies	312,704	346,406
Interest on late payment	-	44
Finance lease interest	2,497	2,099
Interest on Post Retirement obligation	1,958	2,024
	317,159	**350,573**

31. Taxation

Major components of the tax expense

	2015	2014
Current		
Local income tax - recognised in current tax for prior periods	-	-
Deferred		
Taxation for the year	232,994	352,405
Under/(over) provision prior year	(3,612)	10,476
Under/(over) provision current year	-	-
	229,382	**362,881**

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

	2015	2014
Income tax charge to the statement of financial performance	27.37 %	24.67 %
Non-taxable income	- %	3.60 %
Non-deductible expenditure	(0.21)%	(0.33)%
Under/over provision in prior year	1.01 %	0.06 %
	28.17 %	**28.00 %**

32. Auditors' fees

	2015	2014
Fees	4,504	4,228

33. Bulk purchases

	2015	2014
Electricity	8,933,188	8,380,255

The bulk purchases for the year includes distribution losses.

	2015	2014
Distribution losses		
Technical losses	828,953	742,442
Non-Technical losses	1,777,920	1,573,988
	2,606,873	**2,316,430**

Notes to the Financial Statements

Figures in Rand thousand

34. Cash generated from operations

	2015	2014
Surplus	589,691	1,221,088
Adjustments for:		
Depreciation and amortisation	332,130	274,549
Finance costs	317,159	350,573
Interest income	(144,051)	(161,399)
Movements in retirement benefit assets and liabilities	(11,645)	(3,132)
Movements in provisions	4,008	1,232
Annual charge for deferred tax	229,382	362,880
Loss on disposal	1,512	3,561
Changes in working capital:		
Inventories	(63,492)	63,313
Trade and other receivables from exchange transactions	(290,521)	168,125
Consumer debtors	(224,243)	(383,496)
Trade and other payables from exchange transactions	697,002	390,622
VAT	(19,912)	(104,975)
Deferred income	(16,810)	11,891
Finance lease	4,436	13,514
	1,404,646	**2,208,346**

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

35. Commitments

Commitments in respect of capital expenditure:

	2015	2014
Authorised and not yet contracted for		
• Property, plant and equipment	1,455,414	2,145,445
Authorised and contracted for		
• Property, plant and equipment	279,066	76,317
This expenditure will be financed from:		
External Loans	644,125	891,030
Government Grants	37,000	221,795
Internal cash	1,053,355	1,108,937
	1,734,480	**2,221,762**

Operating leases - as lessee

Avis Fleet Services

The entity currently leases 315 non specialised vehicles from Avis Fleet Services. These vehicles are leased through an agreement which was concluded by The City of Johannesburg with Avis Fleet Services on 13 November 2012. In terms of the agreement, all rentals due on vehicles leased are payable monthly in arrears and are linked to the prime overdraft rate. Furthermore the agreement places restrictions on maximum number of kilometers which can be travelled over the lease term and specifies the rate at which excess kilometers will be billed.

	2015	2014
Minimum lease payments due		
- within one year	22,733	23,212
- in second to fifth year inclusive	27,321	51,380
	50,054	**74,592**

Operating leases – as lessee

Kelvin Power

The lease relates to electricity capacity charge payable monthly. The amount is fixed an included in the monthly electricity consumption charge.

	2015	2014
Minimum lease payments due		
- within one year	422,649	514,880
- in second to fifth year inclusive	1,789,170	1,750,313
- later than five years	470,914	932,420
	2,682,733	**3,197,613**

36. Contingencies

Contingent liabilities

ABB South Africa has launched legal action against the entity on the basics of an irregular award of a tender. It is alleged that the consultant appointed by the entity interfered with the tender process to the detriment of the applicant. An agreement between the winning bidder Consolidated Power Projects and ABB is currently being negotiated. No monetary value wa attached to the claim.

City Power is currently claiming consumer debtor impairment at 100% as a tax deduction. South African Revenue Services has approved a deduction of 25%. City Power is appealing the decision of the Receiver.

A summons was isued in favour of a customer Argent Industrial for a refund amounting R357k that was paid out. The matter is being defended and the trial date has been set for 16th April 2015.

PJ Bezuidenhout a supplier is claiming a sum of R35 000 000 from the entity and other defendents. The matter is at a pleading stage.

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

37. Related parties

Relationships	
Controlling entity	The City of Johannesburg Metropolitan Municipality
Other members of the group	City Housing Company (SOC) Ltd City of Johannesburg Property Company (SOC) Ltd Johannesburg City Parks NPC Johannesburg Development Agency (SOC) Ltd Johannesburg Metropolitan Bus Services (SOC) Ltd Johannesburg Roads Agency (SOC) Ltd Johannesburg Water (SOC) Ltd The Metropolitan Trading Company (SOC) Ltd Pikitup Johannesburg (SOC) Ltd Roodepoort City Theatre NPC The Johannesburg Theatre NPC The Johannesburg Fresh Produce Market (SOC) Ltd The Johannesburg Zoo NPC

Related party balances

	2015	2014
Trade and other receivables regarding related parties		
City of Johannesburg Metropolitan Municipality	769,414	461,178
City of Johannesburg Property Company (SOC) Ltd	3	3
Johannesburg City Parks NPC	272	95
Johannesburg Roads Agency (SOC) Ltd	-	540
	769,689	**461,816**
Trade and other payables regarding related parties		
The City of Johannesburg Metropolitan Municipality	686,272	37,223
City of Johannesburg Property Company (Pty) Ltd	53	-
The Johannesburg Theatre NPC	11	27
Johannesburg City Parks NPC	3,996	7,056
Johannesburg Roads Agency (SOC) Ltd	14	5,332
	690,346	**49,638**
Loans from related parties		
The City of Johannesburg Metropolitan Municipality	3,116,226	2,668,784
Loans to related parties		
The City of Johannesburg Metropolitan Municipality	1,331,603	2,241,193

Notes to the Financial Statements

Figures in Rand thousand

37. Related parties (continued)

Related party transactions

	2015	2014
Other income from related parties		
City of Johannesburg Metropolitan Municipality	186,494	133,338
City of Johannesburg Property Company (SOC) Ltd	24	24
Johannesburg Water (SOC) Ltd	61	151
Johannesburg City Parks NPC	238	302
	186,817	**133,815**
Purchases from related parties		
City of Johannesburg Metropolitan Municipality	422,634	146,358
City of Johannesburg Property Company (SOC) Ltd	52	6
Johannesburg Civic Theatre (SOC) Ltd	62	2,072
Johannesburg City Parks NPC	19,815	16,898
Johannesburg Roads Agency (SOC) Ltd	144	283
	442,707	**165,617**

All related party transactions are at normal trade terms.

38. Correction of prior period errors

The accrual for electricity sales includes an increase in revenue reported for the 2014 financial period and a decrease in revenue for 2013.

The effect of the error on the individual line items is as follows:

	2015	2014
Statement of Financial Performance		
FY 2013		
Decrease in revenue	78,923	-
Increase in bad debts provision	121,147	-
Decrease in surplus previously reported	**200,070**	-
FY 2014		
Increase in revenue	(70,430)	-
Statement of Financial Position		
FY 2013		
Decrease in consumer debtors	(200,070)	-
FY 2014		
Increase in consumer debtors	70,430	-

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

39. Directors' emoluments

Executive

2015

	Emoluments	Other benefits*	Travel Allowance	Performance bonus	Total
Mr SG Xulu - Managing Director	2,356	271	128	196	2,951
Mr Q Green - Director:Finance	2,230	185	80	-	2,495
Ms MS Mafora - Director:Corporate Services)	1,419	140	118	90	1,767
Ms NF Msiza- Director:Risk,Assurance & Compliance	1,928	165	96	87	2,276
Mr TG Nkgoedi-Director:Retail Services	1,641	139	-	96	1,876
Mr TM Nzimande-Director:Engineering Services	1,710	161	-	84	1,955
Mr MJ Smith-Company Secretary	1,021	80	93	73	1,267
Mr GS Webb - Acting Director: Engineering Operations	1,238	132	121	120	1,611
Mr DL Pieterse: Office of MD	1,506	130	80	95	1,811
Mr R Smith: Project Manager	677	53	-	-	730
	15,726	**1,456**	**716**	**841**	**18,739**

2014

	Emoluments	Other benefits*	Travel allowance	Performance Bonus	Total
Mr SG Xulu - Managing Director	2,143	196	128	196	2,663
Mr Q Green - Director: Finance	841	73	24	-	938
Ms MS Mafora - Director: Corporate services	1,287	123	118	127	1,655
Ms NF Msiza - Director:Risk, Assurance & Compliance	1,177	104	56	-	1,337
Mr TG Nkgoedi - Director: Retail Services	1,395	152	-	88	1,635
Mr TM Nzimande - Director:Engineering Services	1,242	111	-	-	1,353
Mr MJ Smith - Company Secretary	933	63	93	93	1,182
Mr DL Pieterse - Director: Engineering Operations	1,370	126	80	66	1,642
	10,388	**948**	**499**	**570**	**12,405**

Non-executive

2015

	Directors' fees	Other allowance	Travel allowance	Total
Rev F Chikane-Chairperson	275	3	1	279
Mr NE Galawa	208	2	-	210
Ms ZD Hlatshwayo	36	-	-	36
Mr NSA Hlubi	199	2	-	201
Mr V Lukhele	61	1	-	62
Ms S Makotoko	67	1	-	68
Ms NP Mahlala	162	2	-	164
Mr DR Mokhobo	228	2	-	230
Mr D Naidu	235	2	-	237
Dr Y Ndema	34	-	-	34

Figures in Rand thousand

				2015	2014

39. Directors' emoluments (continued)

Ms M Shongwe	28	-	-	28
Mr TI Sithole	163	-	2	165
Ms LJ Fosu	14	-	-	14
Mr W Hattingh	84	1	3	88
Mr H Moolla	63	1	-	64
	1,857	**17**	**6**	**1,880**

2014

	Directors' fees	Other allowance	Travel allowance	Total
Rev F Chikane- Chairperson	377	4	10	391
Mr NE Galawe	166	2	4	172
Ms ZD Hlatshwayo	168	2	2	172
Mr NSA Hlubi	375	4	11	390
Ms NP Mohlala	202	2	2	206
Mr DR Mokhobo	104	1	3	108
Dr Y Ndema	142	2	1	145
Mr TI Sithole	197	2	6	205
Mr D Naidu	127	1	2	130
Ms LJ Fosu	52	1	1	54
Mr W Hattingh	86	1	3	90
Mr H Moolla	90	1	1	92
	2,086	**23**	**46**	**2,155**

40. Risk management

Financial risk management

The entity has an integrated risk management framework. The entity's approach to risk management is based on risk governance structures, risk management policies, risk identification, measurement and reporting. Three types of risks are reported as part of the risk profile, namely operational, strategic and business continuity risks. Operational risks are events, hazards, variances or opportunities which could influence the achievement of the entity's compliance and operational objectives. For the entity a strategic risk is a significant unexpected or unpredictable change or outcome beyond what was factored into the organisation's strategy and business model which could have an impact on the group's performance. Business continuity risks are those events, hazards, variances and opportunities which could influence the continuity of the entity.

One of the risks for entity identified both under the operational and strategic risk categories, is the financial sustainability of the entity. The financial risks and the management thereof, form part of this key risk area. The types of financial risks which are considered to form the major part of the risk profile of the entity are liquidity risk, credit risk and market risk.

The Board of directors have delegated the management of enterprise-wide risk to the audit committee which operates through various sub-committees. One of the committee's objectives is to ensure that City Power is not unduly exposed to financial and market risks. The entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the entity's financial performance. Treasury Risk management is carried out by a central treasury department under policies managed by the City of Johannesburg Metropolitan Municipality. Treasury Risk management identifies, evaluates and hedges financial risks in close co-operation with the municipal entity's operating units.

Interest rate risk

The entity has no significant interest-bearing assets, apart from the sweeping balance with the City of Johannesburg Metropolitan Municipality.

The entity's interest rate risk arises from long-term borrowings.There are no borrowings at variable rates of interest. Borrowings issued at fixed rates are subject to fair value interest rate risk.

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

40. Risk management (continued)

The entity analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact on surplus/deficit of a defined interest rate shift.

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year				
Consumer receivables	9.00 %	2,180,338	-	-	-	-
Trade and other receivables	9.00 %	885,994	-	-	-	-
Loans to shareholder	9.00 %	1,331,603	-	-	-	-
Trade and other payables	9.00 %	(3,670,198)	-	-	-	-
Loan from shareholder	11.00 %	(419,062)	-	-	-	-
Finance leases	10.00 %	(5,724)	-	-	-	-

Credit risk

Credit risk is the risk of financial loss to the entity if a customer fails to meet its contractual obligations. This arises primariy from the entity's consumer receivables.

Consumer receivables comprise a widespread customer base. The entity's exposure to credit risk is influenced by the individual characteristics of each customer. In monitoring credit risk, customers are grouped according to their credit characteristics, including whether they are large or small power users, geographic location, ageing profile, security (deposits and guarantees) held and payment history.

Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Collateral security is obtained from all customers either in the form of cash or demand guarantees.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposures to credit risk at the reporting date are as follows.

	2015	2014
Trade and other receivables	885,994	595,473
Loans to shareholder	1,331,603	2,241,193
Consumer receivables	2,180,338	1,956,096

Price risk

Price risk is the risk that the fair value of future cash-flows of financial instruments will fluctuate because of changes in market prices. Those changes are caused by factors specific to the individual financial instruments for its users, by factors affecting all similar financial instruments in the market. The entity's financial instruments are affected by the wholesale price of electricity from Eskom and Kelvin. Kelvin's costs include coal, diesel and oil pass-through costs.

Notes to the Financial Statements

40. Risk management (continued)

Distribution Losses

The electricity energy losses can be classified into technical losses and non-technical losses, during 2014/15 financial year.

The entity's technical losses for the year are measured at 9%, amounting to R840 952. Technical losses relates to energy that is lost in the transportation of electricity from the point of supply to point of distribution through evaporation.

The entity's non-technical losses increased from 19.18% to 19.3%. Non-technical losses, if sold would have generated additional revenue of R3 012 751 (2014: R3 026 900) in the current year. The non-technical losses are attributable mainly to the following:

- Theft and bypass of meters
- Illegal decalibration of meters
- Damaged meters and faulty voltage and current transformers
- Billing errors
- Customers without meters

As part of the entity's strategy to continuously reduce the impact of non-technical losses, the following interventions have been implemented and are being reviewed and improved on an annual basis:

- Installation of automatic meter management systems, for both large and small power users i.e. automated metering technologies
- Continuous replacement of faulty conventional and pre-paid meters
- Automation of process to acquire new customers and change of meters (through the implementation of automated workflow and escalation system)
- Utilisation of anonymous "hot line" to report theft, vandalism and tampering
- Random and targeted audits are performed, followed by removal of illegal connections and normalisation supply

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

40. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that City Power will not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows from revenue and capital and operational outflows. Funding risk arises when the necessary liquidity to fund illiquid asset positions, such as building new electricity capacity, cannot be obtained at the expected terms and when required. The entity's risk to liquidity is a result of the funds available to cover future commitments.

The entity manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored. The entity's funding is managed by the City of Johannesburg Metropolitan ity. The City borrows money in the open market through the issue of bonds as and when required.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, entity treasury maintains flexibility in funding by maintaining availability under committed credit lines.

41. Fruitless and wasteful expenditure

	2015	2014
Reconciliation of fruitless and wasteful expenditure		
Opening balance	-	-
Interest on late payments	-	44
Approved by Council or condoned	-	(44)
	-	-

A possible incident of wasteful expenditure is being investigated. Payment has not been made as yet.

42. Irregular expenditure

	2015	2014
Reconciliation of irregular expenditure		
Opening balance	-	-
Procurement of good and services without competitive bids and written price quotations	14,727	4,198
Condoned by Council	-	(4,198)
	14,727	-

The expenses were incurred in normal cause of business. The actions does not represent improper conduct by the employees however it falls within the definition of irregular expenditure as defined by MFMA.

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

43. Supply chain deviations

Emergency replacement of CT's at Multichoice R40 644.

Emergency repairs to restore supply at Ponorama sws R12 919.

Emergency procurement for transformer replacement services R334 688.

Emergency repairs to 11kv feeder board for the recommissioned standby transformer R241 450.

Emergency repairs to restore Data Centre Firewall R92 923

Emergency repairs to ABB panel which caused the shuttdown of incomer number 3 board R229 543

Emergency repairs to Roosevelt Park substation R248 750